



## ***Finance, Revenue and Bonding Committee***

**April 5, 2021**

The Connecticut Conference of Municipalities (CCM) is Connecticut's statewide association of towns and cities and the voice of local government - your partners in governing Connecticut. Our members representing 168 towns and cities.

### **H.B. 6655, An Act Concerning Municipal Taxation and Incentivizing Regionalization.**

HB 6655 would make significant changes to the current property tax system, provide for local revenue diversification and provide financial assistance for municipalities that regional services through the adoption of interlocal agreements. These changes would provide the foundation for needed local revenue diversification, incentives to regionalize services in order to reduce municipal overreliance on a regressive property tax system.

Current State policies have created a scenario that have limited local governments to dependence on regressive property taxes and increasingly insufficient and unpredictable state aid to fund schools, provide for public safety and maintain vital infrastructure. The lack of diversity in local revenue coupled with repeated and significant budget deficits at the state level have created the perfect storm in which, if action is not taken, will see towns and cities unable to provide these needed local services.

The regressive property tax accounts for more than 40% of all taxes collected in the state and is continually undermined by the adoption of legislatively mandated property tax exemptions (currently 99). Overreliance on the property tax is especially detrimental to our urban communities where, in some cases, 50% or more of their taxable property is exempt.

While the need for property tax reform and local revenue diversification has been debated for many years, the time has come when action is required. Towns and cities have reached a point where the reliance on the property tax and state aid are no longer adequate to sustain the services that towns and cities provide, are often mandated to provide and more importantly, that our residents demand we provide.

While CCM has and continues to advocate for changes to the property tax system and for revenue diversification that are included in HB 6655, we do have concerns with aspects of the bill but would look forward to continuing to work with the Committee to address these concerns and develop a bill that provides comprehensive reforms that will benefit our towns, cities and residents of the state.

These concerns include the language in Section 1(5)(b) that would impose a tax levy cap of 2.5% of the Net Grand List of a municipality and require any town or city that exceeds this cap to

reduce spending by at least 15% in each successive year until they are not exceeding the 2.5% tax levy cap. This cap would require significant adjustments by many municipalities as their current tax levy is in excess of the 2.5% cap that would be mandated by this bill.

The bill would also impose limit property tax increases to 2.5% of the tax levied in the previous year.

The bill would allow municipalities to make up the revenue shortfall imposed by the proposed tax levy caps through new revenue diversification options. Section 2 of the bill would allow municipalities the option to impose local taxes on sales, income, goods and services among other things. While CCM has long advocated for needed revenue diversification, CCM has urged that any local tax options be implemented in a uniform manner across the state rather than creating a system where there are varying local tax policies that may create confusion for residential and business taxpayers. It could also create a system which pits communities against each in order to market themselves with the lower tax rates than their neighboring communities.

There is additional concern among CCM members with a June 30, 2022 effective date and the ability of towns and cities to develop the needed policies and infrastructure to meet that implementation date.

HB 6655 would also provide significant incentives for towns and cities to regionalize services by providing reimbursement for local services provided in collaboration with other towns or cities through interlocal local agreements. The reimbursement would be funded through the Municipal Revenue Sharing Account (MRSA) and would provide reimbursement of:

- 10% for shared educational services;
- 5% for shared public safety; and
- 2.5% for other municipal shared services.

Additionally, the bill would allow for multiple bargaining units to negotiate as a single entity (similar to the state SEBAC coalition) when conducting negotiations with municipalities regarding the provisions of services on an interlocal or regional basis.

Furthermore, CCM would like the opportunity to work with Committee to identify additional cost containment opportunities in order to reduce existing costs, review current property tax exemptions and eliminate existing and limit new or expanded unfunded mandates that have burdened towns and cities.

### **CCM'S THIS REPORT IS DIFFERENT, AND THE NEED FOR COMPREHENSIVE REFORMS**

CCM released a comprehensive report in 2017, *This Report is Different* that outlines a new path forward for towns and cities and makes the case that we cannot solve our ongoing fiscal crisis by relying exclusively on spending cuts or property tax increases. Long-term solutions must be comprehensive and may contain proposals that fall outside one's ideological comfort zone. CCM's State and Local Partnership panel, which developed the report, included 21 municipal leaders representing cities, suburban and rural communities, Republicans and Democrats. The panel offered recommendations that would enable towns and cities to:

- Diversify local revenue;
- Provide needed cost containment language; and
- Encourage savings through increased regional collaboration.

CCM believes that the proposals in HB 6655 begin the needed conversation to address the regressive burden imposed by the property tax and options to implement local revenue diversification. These proposals when combined with needed cost control measures and expanded regional collaboration, will provide the foundation for a sustainable and more equitable municipal revenue base. It will provide needed relief for towns and cities that provide a disproportionate share of social services and host a large percentage of state mandated property tax exempt properties.

Diversifying local revenue and additional reimbursement for services provided through interlocal agreements will reduce the current overreliance on property taxes and unpredictable state aid. These proposals will serve to limit property current property taxes and reduce future property tax increases, enable towns and cities to maintain current services, improve and expand infrastructure and provide the needed economic stability to promote needed economic development.

We cannot expect our towns and cities to grow and prosper if we continue the current policies of restricting the generation of local revenues to a regressive property tax system and inconsistent state aid.



If you have any questions, please contact Randy Collins, Advocacy Manager of CCM at [rcollins@ccm-ct.org](mailto:rcollins@ccm-ct.org) or (860) 707-6446.